

Business & Accountancy Q & A

by Richard Bell & Paul Perlin

Self-Employed Taxation

Over the past 12 years I have managed to maintain a balance of work between my main client (on average 70–90% of my annual fee income) and other clients. In the past 18 months I have become involved in larger and larger projects with my main client and now 100% of my fee income comes from that source. My tax status is self employed and the consultancy is a partnership. The main client is invoiced on the basis of a daily rate plus expenses and VAT. How long is the tax office likely to allow this to continue without raising objections with my main client or direct with me?

The fact that 100% of the fee income of the partnership comes from one customer does not by itself create a problem. However, such fee income must be based on a contract or job by job basis and not on a regular daily/hourly rate. The partnership must meet its own costs e.g. travel, equipment etc, and not have such costs paid for by the customer. There must be "financial risk" and freedom to complete the work as the partnership wishes rather than the work being totally controlled by the customer.

Naturally there can be no payment due if the partnership does not do the work at any time i.e. no holiday pay, sick pay or any employee/employer rights. The questioner is vulnerable on a daily rate plus expenses – costs of running his business should be met by his partnership and reflected in his charges for the work done. With the correct structuring the position can be made safe from challenge whether it is a partnership or limited company.

A correctly drawn contract between the partnership and the customer is very advantageous in protecting the position.

Richard Bell

Husband and Wife Business Partnerships

I am about to set up a small Consultancy business operating through a Limited Company. I am married and my wife is currently not working as we have two very young children. I expect to be a higher rate tax payer so would I be best advised to give my wife a proportion of the shares and appoint her a Director so we can share the dividends and Directors' salaries and thus minimise potential higher rate tax liabilities?

The Inland Revenue is now taking a hard look at husband and wife owned companies and partnerships.

If your wife is suitably qualified and heavily involved with you in providing Consultancy services, I see no reason why she should not take a shareholding and be a Director in the new company, commensurate with her involvement in the company's activities.

This would be an arms-length transaction.

You should, however, make absolutely sure that there is adequate evidence of her involvement. In other words, specific reference should be made to her input into the consulting work in contracts and on invoices.

However if your wife's input, though important and vital to the business, is more involved with general administration, I would advise against giving her either a shareholding or Directorship. It is quite reasonable to pay her a salary which would be tax efficient but at a rate appropriate to the task performed.

I recommend you take professional advice from your accountants before you start trading so the structure of the business is properly set up from day one. If you are sensible about your set up arrangements there is no reason for you to fall foul of the anti avoidance rules.

Paul Perlin

Business Travel

What is the best way to account for business travel?
--

Most of my self employed clients sometimes use a car for business travel. In order to calculate the tax deductible claim in their accounts for this expense they are advised to record in their books the total running costs of the car, and to also keep detailed records of business mileage, which can then be used to calculate the relevant business proportion of the total mileage.

In other words if the total car running costs come to £2500, Total mileage is 10000 miles of which 4000 miles is business, the amount we can claim is 40% of £2500 = £1000

An alternative method of claiming for car running expenses is to simply to claim for business mileage. The individual can claim a mileage rate in their self employed Accounts or from their Company. The rate charged into their accounts if self employed, or charged to their company is tax free for the individual, but is tax deductible for the business, provided the rates authorised by HM Revenue and Customs are not exceeded.

The current maximum rates are as follows:-

- Annual Business Mileage up to 10,000 miles: 40p
- Each additional mile over 10,000 miles: 25p
- Each passenger making the same business trip: 5p

Using the above example, 4000 business miles charged at 40p per mile would generate an annual claim of £1600.

If you are VAT Registered a certain proportion can be claimed as input tax but this will depend on engine size.

Also, if you are not a car user, you can claim up to 20p per mile for pedal cycles and 24p per mile for motorcycles, which can include scooters.

Though the rates have not increased since April 2001, they are still fairly generous and can achieve a better result than recording the actual expenditure as well as reduce the burden of bookkeeping.

Paul Perlin

Insurance

What types of insurance should my business be covered by?

As part of our service I usually review the general insurance position of Consultants operating as either self employed or through limited companies. This is a general review and does not relate to specific products offered by Insurance Companies for which I recommend the services of an insurance broker registered with FSA.

I list below some of the insurances I am particularly interested in, which relate specifically to the business activity and would be treated as a business expense and therefore tax deductible.

- Professional Indemnity Insurance
This would protect you against a claim for negligence in an increasingly litigious world. It is not unusual for there to be a contractual requirement for this type of protection.
- Public Liability
This would provide cover to protect against a claim for damages by a member of the public, a client or other third parties because of an injury or damage to their property.
- Employers Liability
This would provide cover to protect against a claim for compensation and legal fees from staff employed under PAYE who claim to suffer injury or made ill at work through the fault of the employer and is increasingly recommended when you use the services of Freelance Sub-Contractors.
- Office Contents

Depending on the value of your equipment, it may be cost effective to take out a standard Office Contents Policy to protect your equipment both in and out of the office and many of these policies automatically include Public and Employers Liability.

A general point, it is a good idea for clients who work from home to notify their household and motor insurers of their self employed status which should be noted on the Policy. This would not necessarily make the premiums tax deductible but would reduce the likelihood of the insurance company avoiding your claim because of this non-disclosure.

My overall advice is to consult a commercial, general Insurance Broker, registered with the FSA. They will advise on the appropriate cover you need and will search the market for the best premiums.

Paul Perlin

VAT

My level of turnover has not yet reached the £60,000 VAT threshold. When should I register and once registered what are the advantages of opting for the Flat Rate Scheme?

It is generally believed that you cannot register for VAT until your turnover reaches a threshold, which is currently £60,000. However, you may find it worthwhile to register for VAT voluntarily if your turnover is below the threshold as there are both tangible and intangible benefits, provided your clients are able to recover the VAT you charge them. Once registered you would be able to recover all the VAT charged to you on the running costs of your business and equipment.

There may be an even greater financial benefit by joining what is known as the VAT Flat Rate Scheme.

This has been designed to reduce the cost of complying with VAT obligations by using a simple method of calculating the VAT payable to HM Revenue and Customs. You simply calculate the VAT payable to HM Revenue and Customs by applying the appropriate Flat Rate percentage to your turnover, including the VAT charged. The Flat Rate Scheme may sound complicated but, in many cases, the savings over the course of the year would contribute to your accountants' bill, with very little work involved. Bear in mind though that it does not always produce a financial benefit, so you do need to look at the Flat Rate Scheme carefully and perhaps take professional advice. Once you join the scheme you are locked in for twelve months.

Whether you join the Flat Rate Scheme or use the more traditional method of calculating VAT, registration can also produce an intangible benefit of effectively adding substance to your business, as most of your clients will believe your turnover is in excess of £60,000 per annum.

Paul Perlin